

## Shifts in Public Relations

By N. S. B. GRAS

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Reprinted from the October, 1945, edition of the  
Bulletin of the Business Historical Society

PUBLISHED BY THE BUSINESS HISTORICAL SOCIETY, INC.

Soldiers Field

Boston 63, Massachusetts

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## BULLETIN OF THE BUSINESS HISTORICAL SOCIETY, INC.

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Issued six times a year and sent free to members of the Society.

For further information concerning the Society or the Bulletin, address The Business Historical Society, Soldiers Field, Boston 63, Mass.

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## Shifts in Public Relations

### 1. WHAT ARE PUBLIC RELATIONS?

We have social relations, industrial relations, private and even poor relations, but what are public relations? We have them like hives and chilblains, but should we admit the fact? Should we try to get rid of them? Indeed, we have had them for a long time, though the phrase is relatively new and has got into few dictionaries or encyclopedias. But, if these public relations are not really upstart conditions, then perhaps they are respectable and may be spoken of.

We should expect public relations to have to do with public citizens, perhaps politicians. But in truth, public relations are the connections, economic, legal, journalistic, and sentimental, that business men have with others outside their own business units.

Let us not think that we can be completely realistic and speak of *business and the public*. Both *business* and *public* cover a multitude of persons, groups, and sins. Absolute reality would involve the relations of all individual business men with all other individuals not in their own business units; but this treatment would leave us in a maze of insignificant details. The broadest generalization that we can arrive at arises out of a consideration of groups of business men and groups of persons on the outside.

The groups of business men are petty capitalists, mercantile capitalists, industrial capitalists, financial capitalists, national capitalists, and sub-divisions of each of them. The groups of persons outside the business man's group are chiefly politicians, communities, consumers, other business groups (including dealers), stockholders, labor, the government, the Church and "theorists." Ideally, in an extended treatise, we should not speak of business and the public but of the relation between business groups and non-business groups.

We would not get far in our study of public relations before we learned that there are good and bad public relations. Examples of bad public relations are hostility of borrowers to usurers, the politicians' attacks on Wall Street (financial capitalism), the farmers' and consumers' antagonism to wholesalers (middlemen), and the chorus of vituperation of small business men and workers against big business. On the other side, there are the business man's attitudes to the public: this is my business, keep out; if you want a service, you will have to pay for it; let the buyer beware; the public be damned; the public be pleased; and the public be fooled.

Let us not think that the business man is the only one who has had ups and downs of outside, or public, relations. In the

Middle Ages the Jews were periodically massacred or driven into exile for a variety of reasons: they were usurers, they were said to have crucified Christ (and thereby made him realize his destiny), and they were racially and culturally different from the peoples in whose midst they had settled. The Jews have never lived long in Christian lands before they have developed bad public relations. How much of this is their fault and how much that of the Christians is not the question here.

In the Middle Ages the lawyers had bad public relations. In a number of peasant revolts, both in England and on the Continent, they were sought out for rough treatment. In part, they were blamed for substituting national or state law for local custom. The new state law was likely to be in favor of lord or king, since it substituted Roman for popular procedure and interpretation. The peasants wanted no specialized lawyers, preferring to rely upon their own local court procedure and interpretation. To this day lawyers have engendered much hard feeling against themselves, but everywhere they are found indispensable because of their native ability and logical training.

One of the most interesting instances of bad public relations comes from the history of the Church, especially about 1350-1550. Periodically, during its more than a thousand years of history, the Church had degenerated and come to be in need of reform. The reform always came, and the chastened organization then continued its career of mercy. During the period 1350-1550, however, the decay was unusually great. The clergy were accused of ignorance, sloth, selfishness, adultery, usury, the acquisition of too much land, and even a lack of Christian faith. They had claimed many privileges and had particularly put themselves above the secular laws and secular punishment. The popular reaction led to the Protestant Revolution and a reformation within the Church itself.

Manorial lords and townsmen who bought their way into the manors enclosed the lands of the peasants, thereby becoming very unpopular. It mattered not that the enclosed strips of lands, thrown into big fields, were better cultivated and yielded more crops or fed better livestock. The poor man, operating as his father had operated, felt a grievance. A long string of high-handed action and passive or violent resistance characterized the enclosure period in England from the late fifteenth to the late eighteenth century. The public relations of the enclosers were very bad and little or nothing was done to reform them.

Gypsies have commonly had unfortunate public relations. They have been accused of cheating in horse-trading, stealing anything loose, and even kidnapping. They have paid no taxes and fought no wars. Their sexual morals have been proverbially loose. Their abilities as blacksmiths, tinkers and musicians have been understood, but these have provided no adequate compensation for their misdeeds followed by flight. Indeed, migratory groups rarely have satisfactory public relations.

Business men, then, have not been peculiar in their challenging



public relations. Perhaps they have been peculiar in the variation of those relations throughout recorded civilization. Indeed, one of the problems of civilized peoples has been the adaptation of business methods to their needs and the assimilation of business groups in their midst. Probably we are at this moment (summer, 1945) struggling toward a more harmonious relationship but the long-run outcome is uncertain.

If business groups ever become perfectly adjusted to their environment, then other groups may have their public relations emphasized. Perhaps organized workers are developing bad public relations. Certainly John L. Lewis has about the worst public relations in America today. Conceivably, politicians will come next. Quite clearly, they are undertaking more and more functions and becoming more and more responsible for social behavior. And, in time, educators may possibly come in for special attention at the hands of the public, especially in view of the poor showing over the centuries in adapting instruction to the changing needs of diverse classes of citizens. That America has been and should remain a land of economic illiterates is something for educators to live down if they can.

Probably society is so constituted that it must always be provided with a scape-goat. There must always be some groups on the inside or on the outside which our leaders must be persuading us to fight. In the fitful stretches of peace, which we may enjoy from time to time, there will be shifts in hostile feelings. If the internal struggle becomes unduly threatening, our leaders can always turn the emotional citizens towards a foreign enemy with his black gods that would devour us. In short, we have both external and internal relations—*ententes cordiales* and conflicts. It is the internal relations that provide us with our theme.

What we call public relations are the problems of adjustment of business groups to other groups within the nation. Since the rise of towns, that is, since the beginning of civilization and recorded history, we have always had these public relations. It is for this reason that the subject requires historical treatment.

There has been a tendency to emphasize one side of the subject, namely, the subjective. To be sure, we have become conscious of the whole matter through the emotions engendered. This has been true in the Middle Ages, the early modern period, and the present: And there has been a correlative approach of wide popularity: many have stressed the need for publicity—honeyed words, scraps of information, and favorable stories. Gradually we are learning that these are not enough. In fact, we know that the more important aspect of public relations is not subjective at all but the objective realities which flow from business policies on the one hand and non-business situations on the other hand. When we add this objective emphasis, we find that the whole subject broadens out until it concerns both business history and general history. This change will be apparent in the pages that follow.

## 2. RISE OF AN INTEREST IN PUBLIC RELATIONS.

When business history reaches the mature stage of being written topically, we shall see that each generation of business men, at least during the last century, has consciously emphasized one or rather several new approaches to business. We may call these fads or fashions. Some did not last, but many did and have become an integral part of accepted business practice.

In the early nineteenth century business men came to emphasize specialization, machine production, and serving an ever-widening market. Soon the great interest became the reduction of costs in competition with rivals. Then many turned to diversification of products and multiple functions effectively integrated. A few saw the need for having adequate reserves, particularly in the form of working capital, but this really developed extensively only in the next century.

In our own new century, and within the lives of many now living, there has developed an emphasis on the business cycle (especially since 1907), an obsession with the scientific management of capital and labor, a genuine interest in doing a better job in marketing (including the reduction in the cost of distribution), and a study of industrial relations (after strikes had demonstrated many evils and dangers in employee relations).

Our subject of public relations came as a conscious interest at about the same time as industrial relations but has lagged a little behind. It has long been regarded as a fad and still is by many. By others it is considered the major problem of big business. How much of the drive toward better public relations is due to a desire to sell goods and how much to avoid hostile legislation or other such action is often a question hard to settle.

Of course, today the interest in public relations has clearly passed the stage of a fad: it has entered the consciousness of business men, especially the younger men. It has already left its mark on business organization and policy. And, I suppose, in due time, when the problems of public relations are solved or rather duly taken account of, there will be other points of absorbing interest arising in business to supplant it. The fashion of carefully planning for everything seems to be a candidate for succession to an emphasis on public relations, though, of course, planning is not new nor are we sure it is being done wisely.

But our main point is that the interest in public relations has come late in business history, is receiving widespread attention, and will doubtless in turn give way to another current interest. We must not think that these passing obsessions are lost to business, however, just because they no longer absorb the interest of leaders. Often their success is imbedded silently in the fabric of business and henceforth calls for action rather than public acclaim.

The lack of wide acceptance of public relations as a subject is seen in the absence of information in encyclopedias and dictionaries, as already noted, though part of this situation is due to

the newness of the subject. Although textbooks provide much useful background material, they do not isolate the subject. Schools usually do relatively little with it directly. A course in Business and Government approximates the interest. Although there have been journals bearing the title and devoted to the theme, still these have been short-lived or unimportant, or both. Today there are one photo-offset sheet (*Public Relations News*) and one printed journal (*The Public Opinion Quarterly*) which are helpful to the student of public relations. The first issue of *The Public Relations Directory and Yearbook*, published in New York and containing 6,000 names, has just been announced. There is a growing list of books and an array of scattered articles but they generally smack of the beginning stage. Declared to be a major business issue in 1932 by the General Motors Corporation, the subject of public relations has up to date made relatively little progress in a formal way. Although the problem is as old as business itself, the recognition of the subject, as a field of intellectual endeavor, is very recent.

The acceptance and practice by large business concerns is, however, a reality and is indicative of one type of genesis of modern business. Somebody on the inside or outside of business sees the need for something new. Some one business man takes the matter up and others follow—to meet needs already in existence. The public trails far behind. Some day a wise man from a learned university may put together the thoughts and experiences in the field and be henceforth regarded as an authority. But, up to date, the mob of workers in the field has not discovered its leader. In the social sciences the normal course of development seems to be, first, the recognition of a need, second, experimentation with meeting the problem, and third, formulation of the best methods of getting results.

As the subject is even now developing it is rather too broad to be thought of as quite separate and distinct. We do not prepare for work in the field simply by concentrating on the central theme. At first, the chief interest was journalism or publicity. Then, social psychology and related fields came to the front. Just now, the tendency is to broaden out to include all connections of business groups with non-business groups, including procurement, sales, industrial relations, and community relations. But, in this swing to multiple situations, we must cling to the inner core of reality: business is business.

### 3. BUSINESS IS BUSINESS: A FUNDAMENTAL DICTUM.

One of the most elementary mottoes is "business is business"—and let the world remember this. The inner meaning of this is that we are not in business for the love of our fellow-man, but that we are content to serve him for a profit—that uncertain residual reward which is reckoned at the end of the day's adventure or at the end of the year's accounting experiences. Throughout the centuries, business men have found that they must be

selfish: there is no other means of survival. And, since the service provided to the public is vital to society, there is complete justification for the policy.

Thus we have established a public relation that is biological and enduring. It underlies and transcends all other considerations. That business could possibly survive without "profit" in some form is inconceivable whether in coöperative business or in socialism. But various difficulties arise because the public does not understand. Frequently the public wants the individual business man to serve without making a profit. The New Deal championed profitless prosperity and got nowhere in a short time. The mediaeval Church would allow a profit on every transaction, but it would not allow a loss on one transaction to be made up on another. In other words, since losses are inevitable, business would have finally withered and disappeared, if the Church had had its way.

Business men, like all other human beings, and even the animal and vegetable world, must be selfish. But human selfishness may be conciliatory, broad-gauged, and keyed to the long-time point of view; in other words, the selfishness may be intelligent. It is here that concessions to the public come in.

Business men, large and small, build up good will by making no charge for very minor services. This is all part of their institutional advertising. It is a cost of doing business that good public relations demand. The ramifications of institutional advertising are, of course, very numerous.

On the other hand, there are concessions to outside groups that business men make, or are required to make, that come under the head of appeasement. Contributions to political parties in the past have sometimes been of this nature. Contributions to gangsters are required in many of our large cities, if business is to be carried on. This is the price paid for self-appointed protection which, it must be confessed, is about as valuable as some public protection that is provided by regularly constituted governmental agencies.

At times, business men make provisions for the welfare of their employees in the form of insurance against unemployment, old age, death, and the like. To some extent, these benefits may be regarded as a matter of social justice or may be thought of as belonging to industrial relations. But, in some notable instances, the *indirect* objective has been largely to improve public relations—through good industrial relations. The theory is that often the most important part of the public to win over is the employees, for they are in a position to be heard effectively in public. It would be an interesting exercise to study the situation so as to learn what proportion of industrial relations programs are chiefly or partly public relations programs. Or perhaps in many cases the plan is to kill two birds with one stone.

The primary, elemental, and instinctive public relations principle, then, is that profits must be earned—in the long run only



through serving the public. The quest for profits, however, must not be put on too narrow a basis. The counterpart, of course, is that all public groups, lay and clerical, should understand this and fully, freely, and honestly accept this. The mutual acceptance of this business principle would be helpful to suffering humanity.

I realize that I have come to the brink of many pressing problems. For instance, whilst men might accept the profit system as legitimate, they might nevertheless disagree as to the amount of the profit in particular instances. In the case of patented commodities or monopolized products there are dire issues of prices to be charged. These are clearly matters of public regulation, and, in times of stress, of public control, but good business policy should curb excessive prices as a matter of public relations and the cost of survival. For business as a whole, however, neither prices nor profits have been too high. Reflect on the heavy business mortality among small and medium-sized business units and the many mergers necessitated in the field of big business. Indeed, the time may come when nations, provinces, and cities may have to subsidize men to enter business for the service of the public. If such policy of subsidy should fail, then our towns and cities and indeed our civilization would shrivel up. Thus the importance of good public relations is clearly indicated.

We have come to a generalization of vast importance, namely, that having good public relations should be a primary aim of the business man. Realizing the many-sided nature of such a proposition we leave it without further consideration.

#### 4. LET BUSINESS ALONE, RELATIVELY SPEAKING.

Business began in the shops or stores attached to private homes or grew out of the pack or saddle bag of a migratory tradesman or arose in the private booth of an artisan or tradesman at a bazaar. In its origin business was personal, private, and exclusive. It is not surprising, therefore, that business men should say that their business is their own and that all others should leave them to their own devices, except of course where a helping hand is required, as we shall see later. First, little fellows in the growing towns and, then later, larger business men in the metropolitan centers or in the satellites of those centers have all claimed privacy. Their promises were private, their practices were secret, and their records were sacrosanct. Indeed, at times business men have thought of themselves as existing in a world of opportunities in which they had many advantages but few obligations. They were free from inspection, free to sell or buy where they would, and in time of war, in early days, free to trade even with the enemy.

Of course, there is something universal in this demand of the individual to be left alone when he sees an opportunity to satisfy his desires, for instance, to gain a profitable living. The black marketeers of the second World War are of that frame of mind.

Indeed, this attitude of secrecy is a part of private business enterprise.

In mediaeval England a trade was called a *métier* as in France, for the word is French. A trade was also called a mystery (*ministerium*) and the drama that a trade gild presented on the occasion of feast days was called a mystery play. In this play there were often presented the mysteries or miracles of the Bible. An easy and understandable confusion arose by the fourteenth century between a trade and a mysterious occupation—a secret way of getting a living. As late as 1784 a Philadelphia banker wrote to a correspondent in Boston that many people regard banking as a mystery and although there is really nothing difficult about the trade it would be just as well to allow the idea to prevail. The secrecy was carried over into the activities of the gilds, livery companies, and fraternal lodges of mediaeval and modern times.

There is as much logic in a business man's demand for privacy and secrecy as there is in his insistence on profits. But, whereas the latter is essential to the continued operation of business, the former very definitely is not. By a process of evolution the element of secrecy is being reduced, at least in America. As apprenticeship gives way to the employment of persons trained on the outside, so is business knowledge necessarily spread widely. Not only are there textbooks on technological processes and on business methods but cases are studied in schools of business, cases which disclose the procedures of particular companies. Engineers and others meet in their professional association gatherings and freely discuss matters once regarded as trade or firm secrets.

As governments enter to regulate and control business, there is a need for information on the part of the legislators and political administrators. For years journalists and propagandists provided so-called information which was largely misinformation. Indeed, business is still suffering from this effort on the part of the public to lift the veil of secrecy. The logical answer on the part of business is to make known the facts of business for the public to read. We shall come back to this theme. At this point, however, we may at least lay the claim that in a world of broadening horizons the business man should give up his secrecy, where no great loss is involved. And this should be in the interest of improving public relations.

Outsiders are saying to the business man: open your accounts, take down your screens, obey public regulations, accept government control, or be socialized. Business men are standardizing their accounting practices, publishing information about their methods and general history, and claiming that they have never had anything sinister to hide.

In the business man, large and small, there seems to be an irreducible amount of secrecy. The actress says to her director, "I won't undo another hook." And so the business man clings to a few remaining fastenings concealing management affairs. These

are not trade secrets, for the movement of employees from company to company has left few of these. They lie primarily in the controller's sphere of activity and in the treasurer's office. Here the little fellows guard the secrets of the company with a consciousness of their own importance. Assistant controllers and assistant treasurers act as though sworn to guard the holy grail. Yes, there are accounts of expenditures and salary lists, including pensions, that are still housed in the ark of the covenant with the deity. There are sundry accounting items, also, particularly in the statements of small and medium-sized companies, that are meant to baffle outsiders, including the stockholders who own the property. And, to these statements, public auditors still append their less than frank and often consciously framed, ambiguous assertions of innocence. But in such situations we find industrial, financial, and public relations all entwined and crying out for a solution.

We began with secrecy and we seem to be ending with publicity. If there is nothing sinister in business to disclose, why not put an end to suspicion? What men understand, they do not fear. What they know, they may trust. What they do not fear and do trust, they may fight for. This would be excellent public policy for the business man. But let us suspend judgment till we come to the end of this treatise on public relations, which, after all, is designed to set forth the historical developments of the subject.

##### 5. THE FIRST PERIOD IN THE HISTORY OF PUBLIC RELATIONS (UP TO THE EIGHTEENTH CENTURY): THE PUBLIC MUST HELP BUSINESS.

Just as the young man expects help from his parents, while maintaining a large measure of personal independence, so has the business man sought aid in various forms even though he has insisted on the profit system and a measure of secrecy in his operations. This was particularly true in the first period of business history.

Just what do we mean by the first period of business history? This was the sowing time of our human civilization when men were developing towns in the midst of a vastness of agricultural and fishing villages. Time after time, men have built up towns for business, defense, and orderly government, only to have them overthrown. This occurred over a period of perhaps 5,000 years before Christ in Anatolia; then later in Babylonia, Egypt, Crete, Syria, Lydia and Carthage, Greece and Rome and most recently in mediaeval southern and western Europe. For only the last-named instance do we have any great amount of detailed information; and on this subject, indeed, there is a vast literature covering particularly the period 1100-1500. This is only the latest effort to create civilization based on business centered in towns. If our present metropolitan civilization goes down into the dust before our internecine strife of conflicting cultures and politics, then we go back to pre-urban village life with its total lack of business. I have dealt with the rise of business in my *Business and Cap-*

*italism: An Introduction to Business History* (New York, 1939).

In the period of infancy, business had the usual dual relations with the non-business world. It was at one and the same time creating a new order of society and expecting help and support from that new order. Indeed, this reciprocal relationship is of the essence of the public relations of business. Real public relations involve mutual benefits and reciprocal assistance. It may be that the mutuality, or informal coöperation, at times gets quite out of balance; but, over the years, the merchant ship on which men sail to higher cultural objectives keeps a pretty even keel.

In this essay we set forth (see p. 22) the view that *there have been three periods* in the history of public relations and that we are now about to enter the fifth phase of the third period. If we are to understand the reasoning used in this presentation, we must follow more or less closely through the early periods.

The first of these periods (1100-1500) is no more remote in purpose than yesterday. Indeed, it is as recent as today, for one of its main concerns was the welfare of the petty capitalist, the small business man, who needed protection and nourishment, who was rising and falling, and whose well-being was as clearly connected with the public weal as it is today.

During this first period, the infancy of business, the little business men were doing a creative job. They were setting up shops and stores in favored centers. They were encouraging a market-place trade for the peasants of the district. They were forming associations, notably the merchant gild (our chamber of commerce) to promote local self-government. They were raising money to buy privileges from the local lord so that they might have their courts and provide for local improvements. They were building walls and training bands of militia and forming courts of justice.

As these efforts to create a little town sphere materialized, other classes came into existence—the clergy, doctors, scribes, notaries, and an array of town functionaries, such as bailiffs and constables. A monastery might already be at hand or a new one set up. Some people might come in from the country. In other words, a *public* was born and the *public relations of business men* became a reality. On the one hand, there were blacksmiths, armorers, weavers, dyers, mercers, drapers, salters, shoemakers, spicers, bowyers, barber-surgeons, money-lenders, and hucksters. On the other hand, there were monks, nuns, rectors, town officials, a few knights, landlords, and a few professional people, such as doctors, lawyers, and notaries. And so business and its public stood ready to develop their relations—those changing attitudes that get attention chiefly when out of joint.

As a tender flower in a nascent urban civilization, business required and received much favored treatment. In perhaps all beginning towns, a merchant gild was formed to include all who bought and sold goods and services and a few other classes. Then, as towns matured, each class was allowed to form a gild and the



members of the gild were given a monopoly of the trade in question, and complete control over the rules of apprenticeship and processes of manufacture, purchase, and sale. As trades multiplied, the feeling grew that each trade should have the *exclusive* right to operate in its own sphere. No brown baker should bake white bread. No cobbler should make new shoes, and so on. And each trade gild was given the right and duty of enforcing the jurisdictional disputes that ensued. The shop-keepers and store-keepers succeeded in persuading the town governments to pass laws restricting the operations of their competitors—the hucksters and peasants bringing goods onto the market for sale.

The traveling merchants, venturing beyond the town walls on horse-back, in open boat, or in sailing vessels, gradually demanded protection from their home towns. Those traveling far afield like the Flemish Hanse of London and the traveling merchants of Cologne, Bremen, Lübeck, and so on, formed trading companies (associations of individuals), for which protection was demanded or purchased from territorial princes or states.

The money-lender, whether Jew or lombard, also demanded protection. He claimed the right to get back his principal and interest. In no other way could he operate in the service of society. The growing pawnshops on the Continent received recognition and privilege. The Church might fulminate against the taking of usury, that is, money for the use of money, but the Christian money-lenders secured the right to continue their service on condition that they took interest instead of usury. This interest was a payment for the fictitious failure to repay a loan, say, after a week or a month. Originally usury was not a high rate of interest at all.

What I am getting at is this: the chief public relation of business in the days of early growth was dependence on the public for a recognition of its ways and means of operation: self-government, monopoly, and assurance of ample reward. The public, recognizing the basic nature of business, responded satisfactorily.

On the other hand, the public soon became dissatisfied with the behavior of some trades and to some it never delegated self-control or self-government. It regulated the quality and at times the price of goods. It controlled the sale of foodstuffs on the market-place in the interest of the consumers. The public relations of bakers and brewers were notoriously and universally bad. Regrating, forestalling, and engrossing had to be strictly regulated or prohibited. The first was buying to sell again in the local market, the second going out to buy up produce on the way to the market, and the third buying up the available supply for later sale.

In the great mass of regulations for local trade, enacted by the mediaeval towns, none appear more frequently than the rules to check regrating and those to force agents to stick to their chief function of agency. The regraters were those local dealers who bought produce on the market-place for sale in their shops or on a subsequent market. Then (as often today) such persons were

not regarded as useful in a local market. There has long been a failure on the part of the public to appreciate the two utilities which such traders provide, namely, possession utility and time utility. In general, the public understands and will pay for commodity production (through mining, fishing, and agriculture), form production (manufacture), and place production (transportation). These are services or utilities that the public can understand, but the mere transfer of possession and the storage from one time to another the public can neither understand nor value. These are blind spots in the eyes of the public and frequent causes of bad public relations. In the case of agency, we find the same efforts 700 years ago as now: to force the agent (broker or factor) to confine his activities to acting for some principal. It was then, as it is now, however, so tempting for the agent to "take a flier," that is, to run the risk of profit and loss. This reaching out on the part of the agent irritates other business men and the public, who think that the agent is not playing fair. In spite of all efforts at reform, the problem persists and even arises again and again in one form or another. The unfair agent is like the immoral priest and the crooked lawyer, a potent source of bad public relations.

Business trickery during the Middle Ages was well developed. No Yankee pedlar and no trader of the Near East in our time could have taught the petty capitalists of incipient mediaeval towns any forms of dishonesty. The rule *caveat emptor* prevailed and the Church's championship of *caveat vendor* had little effect. Of course, all this applies only to the crooked few in the various groups. Just why we should always have a few rogues in every otherwise honest group is not clear. Probably it is because the inefficient ones can succeed in no other way. At any rate, it is this group that provides for business a goodly share of its public relations.

As towns grew larger and as some towns grew into promising metropolitan centers in the late Middle Ages or early modern period, a new set of business men arose and with them a new set of public relations. This new class of business men were mercantile capitalists or sedentary merchants. Their operations were characterized by larger ventures, more capital, wider geographical areas of interest, and multiple functions carefully integrated. Some of the most distinguished of these sedentary merchants were the Bardi and Medici of Florence and Dick Whittington and Sir Thomas Smythe of London.

The sedentary merchants were great exporters and importers and employers of men and women working in their homes on contract jobs. They frequently had ships of their own or shares in many ships. They owned wharves and warehouses. They did their own banking and performed banking functions for customers and friends. They had grown up in an atmosphere of favorable public relations. The public accepted their services and wondered at their success. The public acknowledged their abilities and

admired their ships and their residences. The public saw that they were the servants of the people and the patrons of the arts, letters, and philosophy. The greatest were accepted as merchant princes. Even literary men came to acknowledge their social positions and their public usefulness. As they grew and prospered, so did metropolitan cities grow and nations become strong.

It is this very harmonious public relationship that has obscured an important development in public policy. The welfare of the mercantile capitalists came to be identified with the welfare of the state or nation. Accordingly, the public policy came to favor the business of mercantile capitalists. This is the well-known *mercantilism* of the economists and historical economists. As a national policy, it was developed in sixteenth-century England, seventeenth-century France, and late eighteenth-century America. It aimed at the promotion of exports, and also of imports in case those imports were vital to the economy of the state. It strove to develop a merchant marine to carry peacetime goods and participate in wartime struggles. It favored the employment of poor people in mining, lumbering, fishing, and manufacture in order to lessen the burden of poor relief and to strengthen the economy of the state. By means of a favorable balance of trade, it sought to bring into the state a large supply of gold and silver so that there should be plenty of hard money for the purpose of both domestic and foreign trade and so that there should be a full treasury in time of war.

Students often confuse mercantilism (national policy) and mercantile capitalism (a system of private business). This confusion is very significant. There was indeed a failure to distinguish between state policy and business welfare, because, in fact, there was essential harmony. The business men of the day were happy in their political framework of government. They were not pariahs, not crooks, not public enemies. Politicians, preachers, literary men, and philosophers vied with one another to do them honor. True, an occasional author might stop to write a satire about one, but that same author might just as likely write a very favorable essay about another.

I do not wish to imply that there was perfect harmony between government and business, the public and the merchant capitalists. That might have existed for a while in each state, but sooner or later there was a slight parting of the ways. For instance, in England the government in its great policy of promoting a favorable balance of trade drew the lines too tightly about foreign trade. The government set up the standard that the trade with every country should show a favorable balance. At once those merchants engaged in trading with countries selling more, say, to England than they bought from it, objected. This was true of merchants trading with India (East India Company merchants) and of those trading with France. In the case of the trade with France the English government went so far as to prohibit the trade in certain commodities.

In other words, some mercantile capitalists, notably in seventeenth-century England, demanded a more liberal mercantilism, while others were content with the old illiberal system. Public relations became somewhat constrained at times and many minor political contests were waged in London and at Westminster on this subject. Then, following the lines of narrow interpretation, mercantilism became little more than a policy for bringing gold and silver into the country. In other words, the policy came to put too much emphasis on what had been only a part of the total. And it was this narrow mercantilism, the degenerated offspring of an earlier far-seeing policy, that theorists such as David Hume, the Physiocrats, and Adam Smith could easily criticize, puncture, and finally overthrow.

6. THE SECOND PERIOD IN THE HISTORY OF PUBLIC RELATIONS:  
LET THE PUBLIC KEEP ITS HANDS OFF BUSINESS AND LET  
BUSINESS MEN FREELY COMPETE.

If there is anything like a natural law in the social sciences, it is that a pendulum of events slowly swings, first one way and then the other. There seems, however, to be no even rhythm to the swing. In reflecting on changes in the public relations of business, we observe that, after business has claimed and received the right to regulate itself and to exercise monopolies, this whole system of privately organized control, on the one hand, and government regulation, on the other, is thrown over in favor of what is called economic liberalism or economic freedom.

The new policy bears different names. The English call it economic liberalism, the French *laissez-faire*, and the Germans *Manchesterthum*. The new system was born as a concept in England during the period 1690-1790 and flourished as a policy during the century 1790-1860-1890.

The new emphasis on economic freedom or individualism arose partly out of thoughts of men along non-economic lines and partly out of the special economic position in which England found itself. Because of the fact that England was pioneering in the new industrial processes and mechanical techniques, far ahead of other countries, that country wanted only freedom not only at home but in foreign markets. English or British manufacturers needed only opportunity, not monopoly or other favors. By the favor of circumstances, they were already on top. And so they readily accepted and loudly proclaimed the ideas of freedom and the natural law of human behavior as set forth by social and political philosophers. They succeeded in having their new system written into British law—repeal of the old customs tariff system, of the navigation laws, and of local monopoly and restriction in English towns. Nevertheless, they kept, even promoted, the laws against the export of skilled British workers and of machines; but these in time became useless and were repealed.

Out of the new economic order came a new system of economic



thinking or theorizing: in lieu of the old mercantilism came the new classical economics. Adam Smith was the most clearly recognized leader, and he had followers everywhere—in practically all countries. The classical economists condemned mercantilism and even maligned mercantile theorists. They thought that their new system of public relations was a beatitude too long delayed. They thought that it was rooted in eternal verities instead of arising out of public policy, just as mercantilism had arisen out of public policy and just as social economics was later to arise to displace classical economics.

According to the new system of public relations, business men were to ask little more than police protection. They were to have freedom to hire or fire workmen as before. They were to have the new freedoms of export and import according to their own notions of profit. They were to be free to develop markets abroad either in their own or others' colonies. The great and only test of their operations was the profit of the business man, firm, or company. The welfare of the individual competitor or worker was not much thought of. And, indeed, it was at first fortunate that this was so because new techniques in production and transportation were introduced in a matter of decades, which otherwise might have taken many generations. But there was one false assumption, namely, that displaced and submerged individuals could adjust and look after themselves. This is one of the fallacies of modern political and economic doctrines. Many or most individuals are not born free and everywhere they can know only chains, for they are the victims of their own unwillingness or inability to change, to take technical training, to plan their lives, to save part of their income for effective use, and to fit into a competitive economy of freedom. Of all the strange features of modern life the strangest is the discrepancy between the claims for men and their ability to measure up to those claims. Adjustments toward reality seem to lie ahead and down strange avenues with unlovely names.

To the student of the public relations of business the interesting fact is that business has not stood alone. Indeed, the sooner we recognize this great truth the better: public relations are but a phase of human culture. The new system of economic liberalism was but a segment of the general system which stood for middle-class democracy against autocracy, romanticism in literature against classicism, and personal individualism against subjection to the group. As soon as the movement got under way, journalists, essayists, pamphleteers, and orators raised the rafters in favor of the new truths—all self-evident and too long delayed—and against any limitations imposed by reason or experience. And this should suggest another truth in the history of public relations, namely, that the leaders of the public are not necessarily calm, judicious, or well-trained individuals. Indeed, men having these qualities are not likely to catch the untrained ear of the public. In other words, our public relations are in part and, especially at

certain times, determined or at least formulated by self-appointed leaders who know neither the fundamental facts of business relations nor the capacities of human beings; by leaders who seek attention to themselves and who expect to increase their incomes and satisfy their egos by leading the rank and file in some direction, it matters not much which.

Well, the freedom of action came to business men all right and, as usual, some knew not how to use that freedom. The freedom to enrich themselves was used at the expense of others—small business men and workers. Too many small business men were run out of existence and too many workers were made to suffer. It became evident that freedom means competition and that many men cannot compete with their fellows on an even basis, because not all men are born equal. Indeed, unrestricted competition is biologically unsound. Both physical and mental disabilities drive some individuals—indeed many of the rank and file—to the wall or to the brink of disaster.

Some business men drove ruthlessly on to the logical goal of the competitive system. Cornelius Vanderbilt I, first in the steamship business and then in railroading, exemplified the excesses of the system into which he was born. When worsted by one steamship line in a certain deal, Vanderbilt said, "I won't sue them, I'll ruin them," or something to that effect. This expressed not only his legitimate contempt for the legal processes of his day but his preference for certain business methods. The same industrial capitalist became famous for the dictum, "the public be damned." Now it happens that he was entirely right in his use of this phrase. The perversion was that of journalists. This very notable gem of public relations dicta should be more fully studied. The gist of the story is that Vanderbilt had put on a fast train between New York and Chicago which the public were not patronizing. Indeed, his railroad was losing money. Journalists interviewed him on the subject of the withdrawal of the train. Vanderbilt confirmed the fact that the train was to be withdrawn. Thereupon the journalists said, "But how about the public?" At this point Vanderbilt made his historic pronouncement in the field of public relations. In fairness, the statement should always be made in its implied fullness: If the public will not patronize my train, why should I maintain it at a loss for the sake of a few? Not many of us would take issue with his position, though, today, a railroad company is often forced to keep a branch line even at great loss. But the main point really is that "the public be damned" did express to the public the view of countless successful industrial capitalists of that day.

Behind the whole idea of economic liberalism was a factual situation, namely, that there was a new economic system coming into being and that, starting in England, that system was spreading to other nations of the Earth. This is the objective aspect, the factual foundation, of the policy of *laissez-faire*. This gave the theory push and reality. This anchored in the realm of facts what

would otherwise have remained a passing theory or an insignificant and unfulfilled policy of governments.

What the new order of business men, such as Arkwright in England and Slater in America, wanted was freedom to push the new processes and improvements. By these means, they hoped to outsell their rivals who used ancient methods. So, too, with steamships which saw an easy victory over sailing vessels and railroad trains which could outdistance freighted wagons and passenger coaches. And then, all along the line, large units specializing in one main process could compete successfully with older ways of doing things. What had started as an Industrial Revolution became part of a revolution in business technique.

It was within the new world of economic freedom that the fresh techniques were to be exercised, and, of course, the competition came to be little more than a massacre of the innocents. The small business units and even the old-time sizable mercantile capitalists went down like ninepins. Everywhere small business men shifted—to farms on the frontier or to new businesses at home. But always they felt themselves pursued by a new discipline—a specialized economy on a large scale. What was hardest of all to bear was that this competition was accepted as part of the natural order or as a matter of the survival of the fittest. The new industrial capitalist came to be called “an octopus,” and he was thought of as a ravisher of virtue and a destroyer of holy shrines.

The sweeping victory of industrial capitalists over the old order of petty capitalists was hard to swallow, even though it was sanctified by economic theory (classical economics) and national policy (economic liberalism). It had one obvious merit: It was clearly embodying improved mechanical techniques and business methods. When the industrial capitalist went so far, however, as to outdo and overthrow his fellow-industrial capitalists, he seemed to be going to extremes. But, still, there was no obvious rallying cry under which the new system of economic efficiency could be attacked.

When the industrial capitalists went so far as to “oppress” workers, there was a cry of “Stop;” and legislation was enacted to sanction the activity of trade unions. As a matter of fact, however, with a few exceptions, workers were better off than ever; but working conditions seemed worse when men were brought in large numbers into factories and mines under the public view. Still there was the industrial capitalist’s willingness to drive hard bargains, particularly to insist on an economic or competitive wage as contrasted with a wage that would maintain a decent standard of living.

As individuals and firms (partnerships) gave way to joint-stock companies, incorporated and with limited liability, those in control of administration began to ignore the stockholders, particularly when these were scattered. In America, even by the time of the Civil War, this neglect of stockholders was observed,

especially in the textile industry of New England. A heavy curtain was drawn by the managers so that the owners could not know how their own property was being handled. This situation was to grow worse with the years; and later, in the next period, large concerns, like the American Telephone and Telegraph Company, the General Motors Corporation, and, finally, the Standard Oil Company (N.J.), were to make special efforts to keep stockholders informed either by more intelligible annual reports or by more or less open discussions on the occasion of the stockholders' meetings. In these processes the United States Steel Corporation almost at the beginning of its career and the General Mills in recent years have done much to help create better public relations so far as stockholders are concerned.

Following out this chain of thought has taken us beyond our immediate period—economic liberalism. There is one other contemporary impact of the introduction of industrial capitalism that needs careful, though necessarily brief, consideration. This is the effect of the new system of business on the new political system—proletarian democracy. Business men were coming into closer touch with politicians than ever before and the result is interesting and often misunderstood.

Let us bring this situation sharply to the front. In a world which believed in economic liberalism, it was still necessary for railroads, gas companies, and other public utilities and, in fact, all business firms growing into incorporated companies to go to municipal and especially State governments for authorization to act, particularly to the States for charters of incorporation. At times, there were conflicts of rights or ambitions as between companies. The legislators had the whip hand. They were being asked for what they thought of as favors, not for conditions beneficial to the public which they, as well as the business concerns, were supposed to serve. In order to get favorable legislation, it was necessary for business men or their agents to go before legislative committees to present their case. Often a consideration, an oiling of the legislative machinery, was required. In other words, business men often had to bribe legislators to obtain what it was the duty of the legislators to give. This occurred at a time when the electoral franchise was being extended and when impecunious men were entering politics, especially during the period, say, 1840–90. Many of these legislators developed a feeling that they should be paid for their services to the public—not just in public honor and esteem but in hard cash from all-comers, especially business men.

I am not going to argue the question whether it is ever right to do wrong, whether it is ever justifiable for a business man to bribe a legislator. That ethical problem is left to the reader. What is clear, however, is that, if bribes had not been given, the new systems of railroads and factory production would have been long delayed.

The legislative situation went so far that one concern sponsored



laws indirectly aimed at competitors. Some legislators represented the one-horse narrow point of view of non-social or anti-social interests to the extent of making progress in the new techniques impossible. Thereupon the business man was forced to have the laws changed or to disobey them. Cornelius Vanderbilt is quoted as having said something like the following: "Hell, you can't run a railroad according to the laws." He knew that State laws were making impossible some of his measures, especially his improvement in transportation; and he, public-spiritedly and courageously, broke the laws. Now, who were the sinners, the legislators or the business men? There is no doubt as to who were serving the public.

When American companies spread to foreign lands, chiefly within the twentieth century, they encountered difficulties similar to those in their own States at home. In many instances, foreign governments were about 50 years behind normal democratic advance. Presidents, prime ministers, advisers, legislators or other influential citizens had to be persuaded to give concessions for mining, plantations, or petroleum properties. Local men of capital commonly would not or could not undertake the hazards of making heavy investments involved in draining land, building highways, or sinking shafts or wells deep in the earth. Foreign companies, American included, offered the only hope of developing the properties. Of course, it was socially and nationally desirable that the natural resources should be developed. The questions were by whom, when, and under what conditions? No broad policies were in existence. Accordingly, local officials were often moved by considerations of private advantage. It is reported that influential church dignitaries were swayed by a chance to build or rebuild a sacred shrine at foreign expense. Americans were interested primarily in oil, copper, or tropical fruits. It was not for them to decide whether they should pay taxes for the general welfare or meet the necessities of the officials and legislators who were actually in power. Preference might favor an open franchise with a moderate tax (for instance, one that might be used to improve transportation facilities). It has been necessary, however, for foreign business men to pay sums that have gone unrecorded, in return for short-term franchises. Here and there local movements are occurring, some of which go too far in hostility to these foreign companies while others aim at equitable and long-time readjustments. But our prime consideration has to do with the public relations which have been created by the left-handed concessions of the past. The reader may decide for himself whether a foreign legislator or official, on the one hand, or an American company expanding abroad, on the other hand, is the greater sinner. He might also consider whether each was not just the product of his time. If one may assume that the major issue is to provide commodities for men at moderate prices and to do it now, then the business men were doing the social service and the legislators and officials were obstructionists and unjustifiable self-seekers. But the situa-

tion is not even that simple. Let him who will, pursue the subject to the logical end.

In conclusion, let us note what seems to be a fact, that economic liberalism was at least a complete recognition of the business man's instinctive feeling that he should be allowed to operate as he would, particularly in the introduction and development of industrial capitalism. Perhaps if a nation accepts *fully* the policy of any one class, lay or cleric, political or non-political, it makes a serious blunder.

7. THE THIRD PERIOD IN THE HISTORY OF PUBLIC RELATIONS:  
ECONOMIC FREEDOM IS DANGEROUS; REGULATION AND  
CONTROL ARE THE ONLY ENDURING SYSTEMS.

After a period of experimentation with individualism and freedom, man has discovered some of the limitations of the system. After the experimentation with religious freedom, political freedom, and economic freedom, man has begun to doubt, even to be ready to abandon, the last-named; and there are not a few who believe that this will involve the loss of the other two. The business man wonders at the demand of the people for religious liberty and political freedom, while he sees his own policies and operations curtailed at so many points. He wonders whether a nation can long endure half-free, half-slave. In our public relations we have been till recently gloriously but precariously free. We have served the well, the strong, the capable. These have reacted vigorously in a world of opportunity and produced great material results, as well as some unfortunate situations. The sick, the physically weak, and the mentally incapable, however, have been suffering from freedom and their sufferings are now to be the main consideration at the hands of the public. Henceforth, the weak are to inherit the earth. That is to be the focus of the overall public policy and the dominant note in public relations. That is one of the situations which makes some social philosophers believe in the decline of western civilization, but the end is not yet.

Before considering the third period at length, let us review the past and get a slight adumbration of the future. We can do this best by means of an outline:

Stages in the History of the Public Relations  
of Business Men

First—the public must help business (12th - 18th centuries)

Restraint, privilege, and monopoly.

Second—let the public keep its hands off (18th and 19th centuries)

Competition, not monopoly, is profitable.

Third—the public must help business solve its problems as well as those of society, even though we return to strict regulation and initiate partial control (19th and 20th centuries).

Phases of this third stage:

- a. Financial capitalists (Wall Street) succeed in partly establishing coöperative competition (1890-1913).
- b. Popular reaction against big business in America under the aegis of Populism, Progressivism, and the New Freedom (1890-1917).
- c. Business devises the policy of "the public be pleased" but fooled (about 1901 to the present, but with declining emphasis).
- d. National capitalism is adumbrated in America in the form of the New Deal, a cousin of fascism and nazism (1933-40).
- e. Business is now (1940-45) playing with a new policy—that "the public should be fully served and fully informed" (and perhaps partly educated).

The alternatives of the future: a complete national capitalism or socialism stand as the alternatives of public policy and the essence of public relations.

The first phase of this third period is one of the most significant in modern business history. Business men, more specifically investment bankers, undertook to remedy some of the evils that developed under the system of economic liberalism when industrial capitalists were going to extremes in competition. Factory owners had driven out small masters working in their homes and then turned to drive one another out of existence. They went into bankruptcy in large numbers during very severe depressions. Steamship lines competed till they drove their nearest rivals onto the rocks. Railroads carried freight and passengers for less than cost till their rivals were bankrupt. Oil operators outsold their competitors till they got all the business. Obviously this could not go on indefinitely. Investing capitalists were the first to lose and so their sponsors, the investment bankers, entered the scene to bring about relief.

All this means that private persons, investment bankers, undertook to do what governments, operating under the aegis of economic liberalism, did not feel called upon to do. The Wall Street bankers, however, did not consider the interests of workers or farmers and dangerously arrogated unto themselves power which only a government can safely wield. As might be expected, the people of America objected. They did not see the good the bankers were doing in snuffing out hopelessly weak companies and strengthening the strong, in building up the working capital of the companies they championed, and in insisting on multiple functions carefully integrated. The public saw only the centralization of power in Wall Street and the neglect of the common man.

An early reaction to big business, especially to the private ownership of railroads, is found in Populism, which also championed the cause of abundance of money and the free coinage of silver. The victory of McKinley gave to business a breathing space. Again the public turned against business under Theodore Roosevelt, the big noise and the big stick of the Progressive

Republicans. The Northern Securities Company, established in 1901 by James J. Hill to hold three railroads together, aroused widespread opposition and in 1904 was deprived of its holding-company position. In 1906 a suit was started to break up the Standard Oil combination centering in the Jersey Company. In 1912 the Pujo Committee in a Democratic Congress investigated the "Money Trust." In 1913 the Federal Reserve System aimed at ousting Wall Street and lessening the financial hegemony of New York City. President Wilson had won the election of 1912 under the banner of the New Freedom, which was essentially the return to economic liberalism which the world was abandoning.

When a pendulum is changing its swing, there must be a moment of hesitation. The bankers wanted to go one way. The Democrats wanted to go in another direction. Business men as a whole knew only that they were suffering from uncertain leadership and that they were acting without any clear philosophy as to what they should do. Public relations were bad partly because public policy was devoid of clear direction.

#### 8. THE PUBLIC BE PLEASED (BUT FOOLED, ABOUT 1901 ONWARD): LATEST PHASE OF THE THIRD PERIOD.

Business men could not help observe the bad public relations that were developing. The Standard Oil Trust had been ordered dissolved in Ohio in 1892 and the Standard Oil Company (N.J.) was forced in 1911 to give up 33 of its subsidiaries. Obviously the public had been alarmed. The reaction to all this was a slowly developing new public relations policy on the part of business—the public be pleased (but fooled). I do not mean that there was any consciousness of fooling the public, just a feeling that the public would be given certain benefits and some information and that they would then think that they were getting all that was coming to them. That policy, in varying degrees, prevails today.

The United States Steel Corporation, under Gary (1901-27), began to disclose to the public a large measure of information, hitherto kept secret by practically all concerns, namely, the amount of production and of earnings. And insiders were not allowed to get advance information as to financial conditions. But much information required by the public was still not disclosed.

In 1915 Gary made a statement about business methods that is revealing and significant. It deserves to be quoted:

The reason for these adverse conditions has been partly the fault of the business men. We had become more or less careless in management, indifferent to the rights and interests of others, regardless of our responsibilities towards those for whom we had become trustees, as directors, officials or otherwise, and unmindful of the general public welfare. We did not sufficiently realize our duty toward one another, towards rivals in business and to employees whose welfare we were in duty bound to protect and promote.

Associations began to compile information, particularly for the industry but useful also to stockholders and the public generally.



Indeed, for a period it seemed to some observers that the public could safely repose its trust in those trade associations.

Institutional advertising, which had been long practised by Wanamaker in Philadelphia, began to get more widespread attention. Companies began to publish a great deal about themselves—put their best foot forward. This institutional advertising began in newspapers but was greatly extended in radio entertainment. Large concerns have championed information and amusement in many fields and have done much to educate the public along many lines other than business. Every quarter hour we learn the time of day by this or that watch. About as often this or that company brings the world's news or the day's sports. In the morning and afternoon there are continued stories for moronic females and in the evening hair-raisers for children. At night there are also comics of low humor and a few journalists of bad disposition. Truly, business is trying to please the public; but, let me repeat, it is failing the public in not doing what it should—educate the public to facts of business which voters must know in order to act wisely. The General Electric Company and the B. F. Goodrich Company are setting standards of exposition of products which are promising of what might be done generally.

Benefits were devised for employees, particularly following the first World War. These were partly matters of industrial relations and partly (indirectly) in the field of public relations.

The leaders in this policy of pleasing but fooling the public were chiefly lawyers, who often became executives of large concerns as the most able to meet attacks, investigations, hostile legislation, lawsuits, and more legislation. Under the circumstances of attack, the lawyers did the natural thing and did it well. They advised business men how to break the spirit of the law without breaking the letter. George F. Baker, when he wanted to set up a security company for the benefit of his First National Bank of New York, employed a gentleman learned in the law to draw up a scheme (1908) whereby he could circumvent the law prohibiting a commercial bank from engaging in the security business. It was only in 1935 that these security companies were finally extinguished.

There is much more to this general story, but it cannot be told here. There are government reports and private commentaries in abundance available in every sizable library. To be sure, the reader should be aware of the deep-seated prejudice and partisanship constantly displayed in such sources.

In the effort to please the public there was nothing so prominent as gifts to the public. Of course, such gifts did not begin at this time but they did become conspicuous. Notable are the gifts of Rockefeller, Carnegie, Morgan, and Baker. It is uncertain as to how far these men were motivated by the desire to stave off further criticism and how far to do justice to the people who had made their prosperity possible. At any rate, the gifts were often intended to promote good public relations. To this day, however, it is

uncertain whether such public benefactions have had much of the desired effect. There is, of course, little question that the tendency has been in the desired direction. To the realist it seems, however, that the greatest gift a business man can make to society is to carry on his business simply in an intelligently selfish manner. The conspicuous example of such a benefaction was the life and work of James J. Hill, who helped develop the whole Northwest at the same time that he built up his railroads. Hill came to have the finest public relations, perhaps the finest on record. To be sure, in some ways Hill really belonged to the next phase—the one yet to be born and to be described in the next section.

9. THE PUBLIC BE FULLY SERVED AND FULLY INFORMED (AND PERHAPS PARTLY EDUCATED): LARGELY A FUTURE DEVELOPMENT.

The lack of real frankness on the part of business leaders fooled no one who was really thinking about the subject. The first World War helped business in the eyes of the public because of the great effort made to win the war. The New Era of material prosperity during the 1920's calmed most remaining opposition to business, because business men were paying high wages and extending favors to the public. The stock market collapse of 1929, however, disclosed the hollowness of much of the boom, which was based on loans to foreign peoples and on excessive optimism on the part of investors. The depression of 1929-35 left deep furrows in the public esteem of business. When after his election, President Roosevelt turned to do many of the things he had failed to mention during the campaign period, the public received the leadership that latent suspicion and antagonism seemed to require. At any rate, the Brain Trust, made up of young lawyers and others working in the field of the social sciences, blossomed forth in Washington with a new order—national capitalism. This was the first cousin of contemporary fascism and naziism in central emphasis of policy and was slightly related in methods. Private business enterprise was to be retained but business men were to operate under control. New commissions were set up and old commissions were given a new impetus and fresh weapons to tackle the problems of business so as to provide full employment and restore prosperity. The public was aroused, not against the Jews as in Europe but against investment bankers—Wall Street. Congress was submerged and the independence of the Supreme Court for a while threatened.

The New Deal was a success in so far as it introduced a few needed reforms and gave the people hope at a time when most men feared the future. But it was a flat failure in its effort to restore the confidence of business men or to induce prosperity. Its public relations were the worst possible in those very circles that counted most—venture capital and management. Moreover, the New Deal was also responsible for labor legislation that gave labor leaders too much power and enthroned trade and labor unions far beyond

the justification of past experience. The process of education for labor leadership was hastened to the danger point. The position of the free worker has been dangerously submerged.

Business men were alarmed at the New Deal with its threatening national capitalism and the measure of socialization that was taking place. Moreover, they were coming to see in Russian communism and socialism a dangerous alternative to their own new predicament. Accordingly, they were turning to ways and means of securing a better public policy and creating better public relations.

Business men have become convinced that many citizens have a fixed idea that business is tricky, if not crooked. The relatively low ethical standards of American business men through the generations have come up to plague business large and small. And so, once again, there is a scratching of heads and a searching of hearts to discover what needs to be done to bring about better public relations and ward off the extremes of national capitalism or state socialism.

A new group of leaders are showing themselves in business. Engineers have become increasingly prominent. Graduates of schools of business are following fast behind the engineers. Lawyers who are less legalistic and more social have come to the front, such as Myron C. Taylor and Irving S. Olds in the United States Steel Corporation. More and more college graduates, with a sprinkling of intellectual radicalism or at least detachment, are entering business.

Some business leaders observe that there are too many persons, not in the business ranks, who are willing and able to challenge them in high places—at the ballot box, the legislature, and the court. Some of these are social economists and some radical lawyers. A whole corps of labor legal advisers is coming into being, men with a legal training and an eagerness to learn about business methods. There is a conception of social service and a desire for complete information about business that will not down.

Many old-time legal advisers who have been steering business through the shoals of laws and investigations have almost come to the end of their rope. Their legalistic minds live in precedents and bask in subterfuges. They would keep voters, legislators, and judges ignorant of business. They would continue to hold their board of Directors in bondage to their whip hand. They would keep business safe and profitable for their own legal subtleties. They do not understand that the period of economic liberalism is over. They are impressed with the survival of dishonesty among legislators and judicial administrators. While corporation lawyers, both inside the business company and outside in private practice, are likely to remain invaluable to business, still this value will depend on their ability to help create better public relations. The leaders of the public are becoming too aware to be fooled, and the public itself shows signs of being willing to wrestle honestly with

the problems of business men if real information about them is forthcoming.

We should observe that under national capitalism *ownership* remains in the hands of private persons (in large part) but *control* passes or tends to pass to the government. In self-defense, the owners and their representatives, the executives, turn to influence public opinion and to establish favorable relations with the public. This is to counteract the influence of agitators and intellectuals. Some of the essentials of the new situation are shown in the diagram on p. 29.

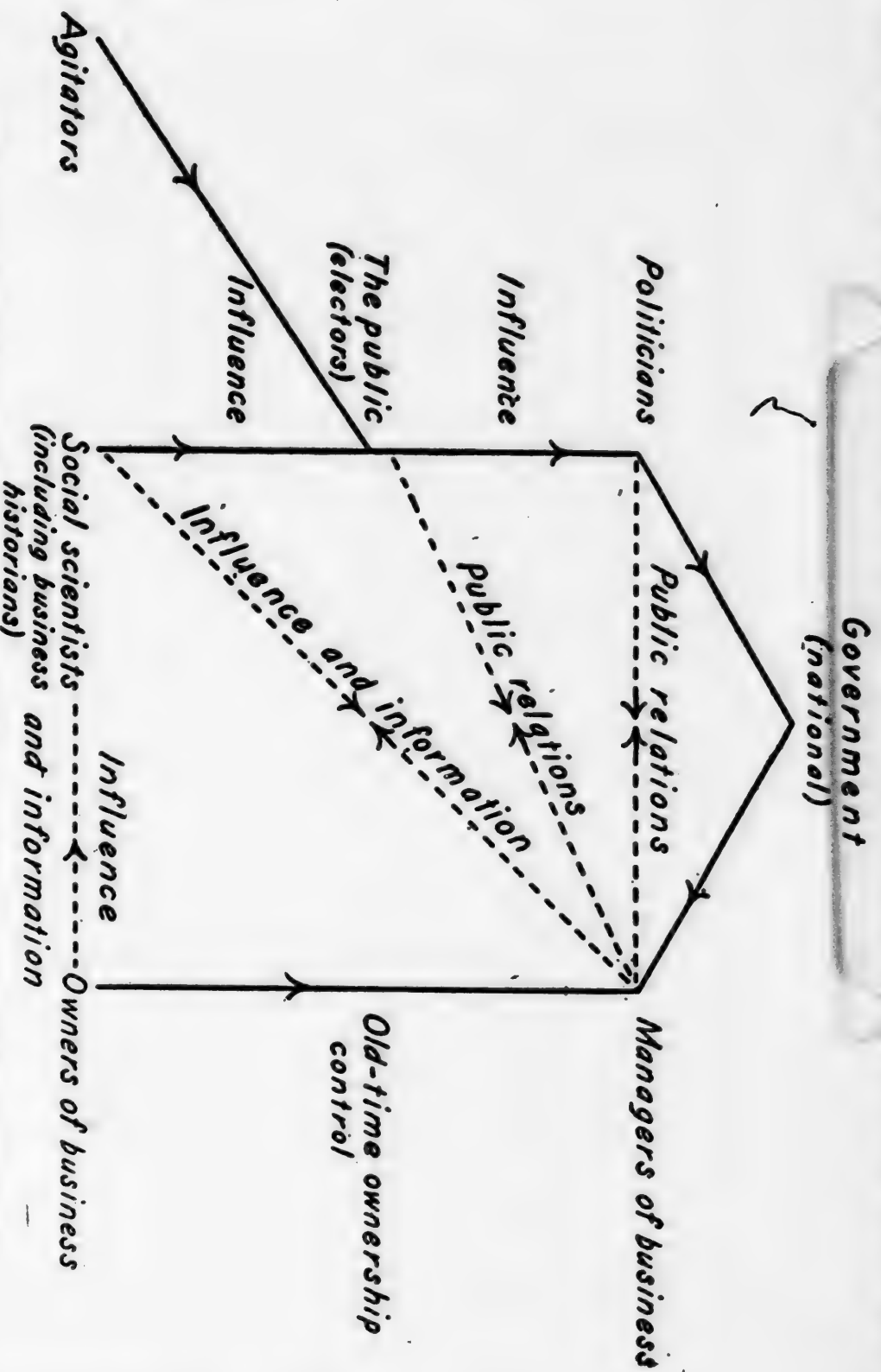
The reader should begin his study of the diagram at the lower right hand corner. Of course the diagram is incomplete. It is meant to be tentative and suggestive. Among the many things, it shows where business historians, as social scientists, enter the picture.

The public needs to be convinced that business is not predatory; that business men are dynamic, creative factors in life and that, indeed, they are the chief social servants; that, although business men make mistakes, and plenty of them, still their average of performance is high, both in repetitive operations and in new methods; that, where business is progressive, the common man is most prosperous; that there is really no reason why practically all the details of business cannot be made public.

My own personal slant on the public relations situation is that not only should the policies, controls, and operations of the present be fully set forth but the record of the past should be studied and published. Few things would help more to give confidence than candid statements about successes and failures. One of the greatest disclosures would be that the evil deeds of the past were part of contemporary public consciousness and grew out of existing public morality, and that abandonment of evil practices showed that business was almost keeping pace with general culture and conscience. Another disclosure would be that the larger the company the greater the tendency to fair dealing, in part for the simple reason that the executives who might wish to be crooked would not venture to encourage their own subordinates to be dishonest for fear that the dishonesty would react against their company. Many small business men are honest, but the highest degree of cheating and misrepresentation is probably found in their midst. In other words, business is becoming ethically sounder as well as technically more efficient as it grows in size.

We should not fail to observe that the upshot of the present movement will be that the ethical standards of large business concerns will be on a much higher plane than those of the citizenry. In our democracy-of-laws-not-enforced the chief aim of a large number of individuals is to "get by" without being caught. Accepting the spirit of the law as it applies to most people, they break the law for their own particular benefit. The motorist passes a red light when it appears that he will be unobserved; the smoker goes into a non-smoking car to enjoy the better air, while he





# PUBLIC RELATIONS IN THE DAWNING RÉGIME OF NATIONAL CAPITALISM (NEW DEAL)

impudently inflicts his own fumes on others; and there is probably so much failure to declare all income for tax purposes that the sport will become as popular as adultery. Under the ægis of the public relations movement, on the other hand, the big business concern is going to be put into the kind of position in which the preacher and teacher find themselves—they must make good in conduct as well as in theory. That such strict behavior will lead to an unfortunate rigidity in business is very likely.

If I were to make a plea for the writing of business histories as a means of promoting better public relations of business and business men, I certainly should not recommend the advertising type, the one that glorifies executives and praises products. This type has its place but it does not profoundly improve public relations. I have set forth in a number of this *Bulletin* (October, 1944) what I have in mind. The essay is entitled *Are You Writing a Business History?* The purpose of a worthwhile history of a business is that the public should be fully informed as to how a company has served society. A history of a company is more likely to have enduring social value if it is issued under the auspices of a public relations department than if sponsored by an advertising department, though the latter department can be of great help in the writing of such a history.

In the process of writing a business history we should note, when we come to the subject of public relations, what the influence of outside counsellors and inside departments has been. We should also study the factors at work, in business as a whole and in the firm in question, in the formation of public relations, good or bad. All of these are dealt with briefly in the sections that follow.

#### 10. PUBLIC RELATIONS COUNSELLORS.

In studying the history of business units in America we find that the earliest counsellors of business men on the subject of public relations were the company counsels or the lawyer-directors of the company. In banks, railroads and public utilities these developed into important figures in business administration and growth. These lawyers were typical men of the law, trained in breaking the spirit of the law though observing the letter and in avoiding legal entanglements. They were generally not trained in meeting squarely the public's essential demands nor in creating smooth, harmonious, and long-time safe public relations. I should like to avoid taking too broad a stand on this matter. We are all acquainted with legalistically minded laymen who outdo their professional associates, and, moreover, I know lawyers who have mingled with business men, politicians, and the general public and who have thought afresh on the subject of public relations. Some of these lawyers have done first-rate jobs as counsellors when advising as to relations with the public. On the whole, however, I believe that the lawyer has done at least as much harm as he has done good in the field of public relations.

Men of a new point of view and of various specialized backgrounds are now required to tackle the problem. Among these of course would be journalists, social scientists (including social psychologists), popular-poll experts, and the like.

At first these could be most effectively grouped in outside independent organizations comparable to the law factories of our metropolitan centers. In other words, a new group of business auxiliaries, devoted to public relations, arose to take its place alongside of such other auxiliaries as industrial engineers, management engineers, marketing consultants, and industrial relations counsellors.

Perhaps an intensive study of the history of public relations during the past century would show that the development has been somewhat as follows:

1. Use of general counsel of business concerns and company directors, having a broad legal training (at least 1840's following).
2. Expert adviser to one or more companies, such as Ivy L. Lee (1906 and following).
3. Organized business auxiliaries—public relations counsellors (1910's following).
4. Assistant to the president in charge of the public relations of a company (1920's following).
5. Full-fledged public relations departments (1930's following).

In the next section we shall consider numbers 4 and 5. At this point we may give attention to numbers 2 and 3. The beginning of this story in America centers in Ivy L. Lee who was a journalist in New York City, 1898-1903. He entered the publicity business in 1903, first taking on various companies and business men (Pennsylvania Railroad Company and John D. Rockefeller, Jr.) as his personal clients who needed advice in public relations; and then, in 1916, he set up an office of public relations counsellors which went under various names until his death in 1934 and indeed down to the present. Of course, Lee's interest was largely a matter of publicity—giving out the right kind of information at the right time; but, still, Lee had sound notions of business policy which must underlie any successful publicity. In a pamphlet issued in 1916 he declared that "whenever a lawyer starts to talk to the public, he shuts out the light." Here is an example of an outsider teaching some of the chief business men in the country something about how to run their business. For many years what he stood for—publicity—is likely to be a major issue.

#### Some Isolated Developments in the History of Public Relations Counsellors

- 1906 — Ivy L. Lee began as press representative of the anthracite coal operators and of the Pennsylvania Railroad Company. In 1916 he set up an office in New York.

- 1913-15—Frank H. Fayant was publicity counsel for Speyer and Company.  
1916-24—William W. Harris, a Baltimore lawyer, was a publicity counsel.  
1919 — Edward L. Bernays began his career as counsel on public relations to governments, industries, corporations, and trade organizations. Term used was "publicity direction."  
1921 — *Public Relations*. Issued from the office of Ivy L. Lee and Associates, New York, beginning 1921 or earlier.  
1931-36—J. Carlisle MacDonald, journalist, was public relations counsellor to the Guggenheim Brothers (and later manager of the Public Relations Organization of the United States Steel Corporation).  
1939 — Establishment of the American Council on Public Relations.  
1944 — The Manhattan Classified Telephone Directory listed over 100 public relations counsellors of various types.

This list of facts is obviously incomplete and is therefore somewhat misleading. Some day the story will be recorded in much of its fullness. Our present interest is very general and confined to the placing of the public relations counsellors in the general development of public relations in America. In a broad way, we may say that they have helped business men develop the policy of "the public be pleased" and made some contributions to the newer and dawning policy of "the public be fully served and fully informed." There is, however, a disquietingly high turnover in the accounts of many public relations counsellors. How far this reflects unfavorably upon the counsellors and how far on the clients is not clear. Perhaps the incautious practices of some of the counsellors are matched by the unreasonable expectation of tangible results on the part of the clients.

It is fairly obvious that a business auxiliary, such as a public relations counsellor, has many merits. A number of experts can be employed. A considerable fund of experience can be accumulated while in contact with companies of vastly different backgrounds. And, for the small or medium-sized company, there is great economy in employing an outside agent for a special job, thereby saving the expense of maintaining an inside organization.

Many large companies employ the services of public relations counsellors. Lee and Ross have as clients the Pennsylvania Railroad Company, the Chrysler Corporation, the Socony-Vacuum Oil Company, and the Western Union Telegraph Company; Carl Byoir Associates have the Bendix Aviation Corporation, the Pullman Company, the American Can Company, the Great Atlantic and Pacific Tea Company, and the Schenley Distillers Corporation; and Verne Burdett has the General Foods Corporation and the Grocery Manufacturers Association. Other large corporations, for example, the United States Steel Corporation, have not employed public relations counsellors at all.



If a company is so big and so situated as to have recurring problems of public relations, then the auxiliary on the outside may be no permanent solution to the problem of how to solve public relations. But the outside auxiliary—public relations counsellor—can continue to advise a company which has set up its own organization or can even allow some of its own men to join the new organization.

#### 11. PUBLIC RELATIONS DEPARTMENTS.

The counterpart to the outside public relations counsellor is the inside public relations department. Only large concerns can afford to have such a department and no large concern can afford to be without one. I know that some executives, for instance, Walter C. Teagle, former president of the Standard Oil Company (N.J.), have argued that every officer and every worker is a public relations man; that the company in its purchases, sales and industrial relations is playing ball with the public and that these relations are enough. In truth, however, there are some things that the regular staff cannot do because all the members have established duties and are fully occupied. Arthur W. Page, vice-president of the American Telephone and Telegraph Company, and others believe that a formal department is necessary in order to stimulate and guide the action of officers and workers and in order to set forth to the public the story of what a company stands for and what it is doing in a general way.

In some companies an intermediate step consists in appointing an assistant to the president, who is exclusively charged with the duty of promoting good public relations. He builds up a small staff and perhaps employs a free-lance journalist to write articles and a public relations counsellor on the outside to advise. This arrangement may be a sort of try-out for something bigger—a full-fledged department. Since we cannot here go into detail concerning the development of public relations departments, we may append a few facts which indicate the general course of growth.

#### Some Developments in the Direction of Better Public Relations Taken By Business Concerns and Industries

- 1908—Formation of the Iron and Steel Institute.
- 1910—Statement by President Vail of the American Telephone and Telegraph Company that public interests transcend private.
- 1916—National Industrial Conference Board formed.
- 1917—*The Commerce Monthly* published and widely distributed by the National Bank of Commerce.
- 1918—*The Lamp*, published by the Standard Oil Company (N.J.), first for employees and stockholders and later for the public. President Teagle had begun a new publicity policy in 1917.

- 1921—General Motors Corporation became active in giving out information to the public.
- 1923—James Keeley, Chicago journalist, became director of publicity in The Pullman Company; in 1925 he was elected as assistant to the president and in 1930 became vice-president in charge of public relations.
- 1927—Arthur W. Page was made vice-president in charge of public relations of the American Telephone and Telegraph Company.
- 1929—Clark Belden was made director of public relations in the National Electric Power Company, New York.
- 1931—James W. Irwin became director of public relations of the Frigidaire Corporation, and in 1938 of the Monsanto Chemical Company.
- 1931—Paul Garret became director of public relations in the General Motors Corporation and later developed the Public Relations Department of that corporation.
- 1936—The Public Relations Organization of the United States Steel Corporation was begun.
- 1942—Creation of the Public Relations Department of the Standard Oil Company (N.J.).

Extended study would probably show that an initial difficulty is encountered in the uncertainty as to when a department really comes into being. A man is appointed to do the work of a public relations manager and develops first an office, then a department. The word "department" may be long in coming, or public and industrial relations may be combined. Sometimes, indeed, a public relations department may be little more than a sales promotion or publicity bureau. In some concerns there is great reluctance to admit the existence of a public relations department. In part, this may reflect the lack of candor on the part of an older executive who still adheres to the policy "the public be pleased but fooled."

It is only the specialized members of a public relations department that can devote the thought necessary to the various problems that arise in connection with the public. It is only they who can enlist or develop specialists able to pass judgments on problems of press releases, advertising, house organs, and historical pamphlets or books. It is only they who can answer some questions raised by other departments and by the public on the outside.

Here are some of the classes of experts employed in a large public relations department: engineers, newspaper men, social scientists (including social psychologists), liberal arts graduates of colleges, former outside counsellors in public relations, former government employees, and some from the ranks of the business itself. It is proper that the staff of such a department should be made up of younger men and women, those with theoretical training, keyed to the public's point of view, and possessing the candor of the present generation. It is a plausible view that the able leaders in the public relations department are ultimately likely to go

far upward into the reaches of top management in these days of political and social conflicts.

The public relations expert must be like the accountant, the statistician, the economist, and the industrial relations expert in the matter of professional standing. He must be detached in thinking, honest in his reasoning, and loyal to the cause or subject he serves. In short, he must have a high degree of professional pride. This is his greatest asset and the one that the employing company should most resolutely insist upon.

But, when all these things are said, we should remember that the mere existence of a public relations department does not insure good public relations. The specialized department can do all the little things and arrange the mechanics of many situations and even help in numberless detailed ways, all important. But, still there are decisions of company policy which only the board of Directors can make that are of much greater weight. For instance, should prices be raised or lowered? Should employment be curtailed? Should an umbrella be held over smaller competitors? Should large sums be devoted to this or that charity? Should a new patent be used or shelved? Should the company add to its line of products or multiply its functions?

In other words we come back to the idea that business policy creates public relations. It is wise not to take advantage of neighbors, competitors, and employees. It is wise not to grow too big. It is better to make profits from a large volume of goods or services sold at a low price. These may be the counsel of perfection but they are most potent in creating good public relations.

In a society such as ours, there are different forms or systems of business competing for existence—petty capitalism, industrial capitalism, financial capitalism, national capitalism, socialism, and communism. Frequently we hear the cry of the uninformed: let us have no "ism," except Americanism. If an ostrich could talk, this is what it might say when its head was under the sand. The public can have any one of these "isms" that it wants, though it is not clear which would serve it best. The most recent struggle has been, and perhaps still is, between financial capitalism and national capitalism, each being devoted to the control of industrial capitalists. It looks as though national capitalism would win, but in the background there are communistic and socialistic alternatives.

The economic liberalism of yesterday seems to have gone forever, at least in its old form. Many believe that with it will go political and religious freedom. There is a bare chance that the lovers of freedom of various sorts might get together and decide to go back to something resembling economic liberalism—vaguely called democracy. There are few champions of such a procedure in learned circles, but it seems a sound deduction that as religious, political, and economic freedom developed in succession, so may they go down in the reverse order. Public relations are important. Perhaps public relations are now the chief problem of business and indirectly of politics and religion.

The primary, elemental, and instinctive public relations principle, then, is that profits must be earned—in the long run only.

Perhaps the public relations department of a *large* concern should also employ a business historian, an historical economist, or a philosopher of history. The last-named might hold the many-colored threads of social growth together so as to follow the larger pattern of our development. A large public relations department could easily become the victim of its own routines. Without vision, its mission will fail. With vision, it promises to become one of the most useful organizations in business or in society itself.

Whether a public relations department normally has only an executive or consultative committee, I do not know; but I can see that a more important body would be a planning committee devoted wholly to larger issues, whose work would culminate in policies which would be recommended to the board of Directors. Governments, particularly in war time, feel the need of such bodies and big business units could profit by their example.

A public relations department in our day has to look closely to two groups which need education along its line. One is, of course, the general public. The other is a great many older employees in the company itself, whether in high or low position. Many of these are as recalcitrant and unenlightened on the subject of public relations as could be found even outside the field of business. Perhaps the most difficult departments to convert are the legal, accounting, and financial; the easiest are manufacturing, transportation, research, sales, advertising, and industrial relations. But in truth, the problem of internal regeneration is at first essentially a personal matter. The president or chairman of the Board and a few directors may take the effective leadership. Thereupon they may create a department of public relations, but the whole procedure is partly experimental and tentative. Others within the organization may not be convinced of the value of the new-fangled set-up. The youthful department must, in fact, struggle to function on the outside before there has been a complete conquest on the inside. Such are the growing pains of institutional development.

Some day, when historians are farther away from the beginnings of public relations organization, it may be possible to record with clearer vision the big steps in the early growth. Perhaps the following will be found fairly near to the actual development. For the present they may serve as a review of what has been said and an adumbration of future studies.

First, an officer of a company sees the importance of public relations and at least makes known his stand within the company or on the outside. President Vail of the American Telephone and Telegraph Company is an example of one who had the vision but did little.

Second, an assistant to the president may be appointed to provide information and arrange publicity. A newspaper man has often been chosen. He may edit a house organ, employ free-lance writers, or otherwise arrange for favorable publicity.



Third, a vice-president may be appointed to take charge of public relations and he may set up some kind of organization (whatever the name) to provide publicity.

Fourth, a public relations department, either under a department manager or under a vice-president, or both, may be established to do a much bigger job. It has probably been true that such a department first tends to employ a lot of specialists to do routine jobs in order to execute the policies of the board of Directors. Perhaps in some instances, it should be noted, number four has preceded number three.

Fifth, the public relations department, under favorable circumstances, may emerge as an all-round research organization, not only for the execution of policies and procedures determined elsewhere but for research which leads to new company policies.

Of course, at any one of these steps, public relations counsellors may be employed to give advice, make surveys, or otherwise aid in public relations work.

I am inclined to think that one of the most important undertakings of a public relations department would be to study the factors that enter into the molding of public relations—for business as a whole, for the industry in question, and especially for the company concerned. Some of these factors are briefly dealt with in the sections that follow.

## 12. EFFECT OF BUSINESS CHANGES, ESPECIALLY DEPRESSIONS, ON PUBLIC RELATIONS.

There are three notable types of business change—(1) changes in business systems, (2) booms, and (3) depressions. All of these affect the public relations of business men.

Changes in business systems are exemplified by the introduction of industrial capitalism, financial capitalism, and national capitalism. When a new order of business appears upon the horizon, there are mingled feelings. Some persons stand to lose and fear what's coming. Others expect to gain and welcome the change. No clearer examples could be found than the coming of industrial capitalism with its factories, railroads, and steamships. The great public—the consuming public—welcomed these new services. But soon those who suffered and those who on the side line learned to find fault got together as critics and led the public to demand changes in the new system. Remedial legislation, or at least a demand for it, does not lag far behind the in-coming of a new type of business. In the case of national capitalism introduced by the New Deal, however, protest was immediate because the New Deal was introduced by means of hasty legislation for which the country was not at all prepared. But this much is clear, early or late, any new system of business will experience fluctuating public opinion and changing public relations.

Boom periods in our business history have been accompanied by the elation of the people and the distress of the clergy. It seems that when men can get all the material things they want, they for-

get the religion of their fathers: they are willing to jump the life to come. With the boom comes a feeling of satisfaction and expectancy. We have experienced this many times in our history but on no occasion more dramatically than during the period 1923-29 when American leadership in business was first recognized by Europe and Asia. The scientific management of capital and labor seemed to have solved the problem of ample and increasing income, at least for most classes and with a minimum of trade union leadership or agitation. Europe called the system rationalization, which expresses in part the idea that business men were using their brains to make progress. The public relations of business men were excellent. Only a few leaders in the camps hostile to business, a few religious leaders ever fearing too much materialism, and a few cultural Jeremiahs challenged the steady stream of income and the rise in the money value of assets widely held. Those were the halcyon days of American business, comparable with such earlier periods as 1819-37, 1849-57, and 1898-07. But, in the period 1923-29, America was more populous and occupied a greater position in the world. God was in his heaven and across the sky was written the motto: Get rich quickly and now. In spite of the fact that public relations were at their best, however, some companies were building their fences for the future; that is, they were studying the subject of public relations.

It is probably the depression that makes us most conscious of the subject of public relations, particularly those major depressions that occur within a downtrend in prices and profits and last a long time. There have been three of them—1837-43, 1873-79, and 1929-35. It is interesting to note that each lasted about six years. During the first two, there were free lands to homestead and undeveloped towns in the West in which to start life over again. But during 1929-35 there was blank despair. Jobs were lost, savings were wiped out, and millions of persons had no backlog of income on any basis or at any level. Hope changed to fear. Trust in business leadership changed to a refuge in politics. From excellent public relations business dropped to the worst possible.

It was unfair to blame the business men of America for the crisis of 1929 and the ensuing depression. To be sure, they shared the blame but the situation leading up to the depression was worldwide and the speculation that brought it to a head was participated in by housemaids and clergy, artisans and politicians. But no matter the cause, the results were clear: business men lost faith in themselves and other classes looked elsewhere for leadership. The brain trust of the New Deal gave the leadership—the four R's—relief, reform, recovery, and retribution. Class was set against class and public relations were at their worst. Not a few persons feared civil war. Even the leaders of such a war were mentioned, and some organizations and business men and others were under suspicion.

The one thing the New Deal did not accomplish was full re-

covery. There was a flurry toward it in 1937 but this was lost the following year. Recovery came in America, as in Italy and Germany, only in war and the preparation for war. But out of the fears of depression came many plans for preventing further depressions by means of political action. This had often been discussed, 1913-29, but nothing effective had been accomplished. At least there is a willingness now not only to regulate business but to control it—under the new régime of national capitalism. The immediate effect of the introduction of this system was the worst possible public relations—during the period 1933-35-40. But more recently has come the acceptance by at least a large number of business men of the responsibility of providing employment in such an even way as to avoid great depressions. This plan looks like a social utopia; but if successful, it will have a fundamental influence upon public relations, for it will have removed one of the worst causes of social unrest—the business depression.

### 13. OTHER BUSINESS FACTORS IN THE CREATION OF BAD PUBLIC RELATIONS.

We have already considered the effect on public relations of changes in business conditions. Some other factors need to be set down here, even if touched upon elsewhere.

An old-time cause of poor public relations is the sale of inferior goods or services. This is persistent in the migratory trader and is often found in small business units. The petty capitalist often thinks that he cannot afford to take a loss in the case of spoiling provisions or other commodities that have developed a sour market. The larger company frequently is willing to destroy inferior goods so as to avoid the more serious loss of product prestige. There are many instances to the contrary, however, as everybody knows. A large chain store bought several carloads of inferior grapefruit and proceeded to sell them at a moderate price without labeling the fruit as inferior. A brewery in 1934 suffered a breakdown in production. Its new tanks, badly built, caused a nauseating flavor in its ale. The president, however, kept on sending out the stuff, knowing full well it would be returned. After a decade, that company has not fully regained customer acceptance. Its public relations are still seriously impaired.

Another set of causes of bad public relations is found in bad *industrial* relations. Disgruntled employees spread their ill will. Wage disputes and unsuccessful strikes may impair employee morale for years. Unnecessary contraction of work leading to unemployment cuts deeply. Failure to use patents is a talking point with labor leaders who would foment trouble. Discontinuing plants or even whole companies causes workers to move or change their habits. The existence of many plants in various labor markets helps a manufacturing company, but there is a suspicion that one reason for the distribution of such plants is so that the executives can shut down any plant where there is labor trouble. The complete discontinuance of operations by the Amoskeag Manufactur-

ing Company, so as to avoid further loss on the part of stockholders, was the cause of bitter labor complaint and the subject of much unfavorable outside comment. In truth, however, the Company could not have long continued to employ men under existing conditions because its capital would have disappeared. Better for all, in the long run, to scrap and sell and re-invest the proceeds in industries that would continue indefinitely to employ workers and pay dividends. Closely connected with such strictures has been the building up of large surpluses, often ostensibly to employ workers in a depression, which have been in fact used to pay dividends in a period of deficits.

Of course, high prices always make the consumer squirm. They cause bad public relations and bring on a consumers' strike. It matters not whether these high prices are caused by boom conditions or by some monopoly advantage. At this point a whole book should be devoted to the issues involved, many of them insoluble. But this new rule is emerging: it is good policy for a large company not to take advantage of temporary conditions to charge all that the market will bear. A temporary advantage may be gained at the expense of long-run public relations.

The integration of business functions, closely connected with price levels, is one of the most patent causes of bad public relations today. In the effort on the part of industrial capitalists to save themselves from cutthroat competition many new functions were taken on, all more or less carefully integrated. Railroads entered coal-mining, lumbering, the steamship business, the hotel business, trucking, the street car business, and so on. Laws were passed to check or roll back some of these developments. Public utilities bought or controlled newspapers with which to influence public opinion. Manufacturers pushed back their operations to mining and lumbering, and added transportation, wholesaling, and retailing. Once the movement got underway, almost all units felt they had to follow. One of the most notable examples is found in the petroleum industry. Companies that began with refining and selling their products to wholesalers now produce the raw product, transport it in their own pipe lines or tankers, make many by-products as well as the chief products, wholesale and retail, carry tires, batteries, and other accessories, and produce, transport, and sell natural gas. They may even enter the chemical industry because of the numerous products that can be made out of petroleum.

There seem to be two objections to the large integrated concern. One is that it raises prices, though this is hard to prove. The other is that such a concern is large and powerful. Both charges can be brought forth by politicians and bannered to the electorate. In truth, however, the advantages of integrated concerns far outweigh the disadvantages—in creating stability in peace and effectiveness in war, in making research feasible, and progress generally possible. But, again, it is easy for unfriendly persons to play up integration and large size in order to create bad public relations, and many a big concern is now doing what it can to counter-

act the agitation and misrepresentation which have been identified with integration. It is much to be feared, however, that prosperity, such as comes from integration, is itself the occasion of bad public relations. Anyone who succeeds may be the victim of jealous reactions on the part of others and may be open to suspicion and calumny. It is perhaps no accident that an archangel is sometimes painted in full armor.

The growth of wide gulfs between groups has been as unfortunate as it is inevitable. As the local town market has grown into metropolitan proportions, the business unit and its customers have become widely separated. As units have grown in size, it has not been possible for executives to know their foremen or workers. And as the corporate form of organization has spread, especially since about 1890, there has been a lack of sympathy between executives and stockholders and a lack of knowledge of the business on the part of the owners. This was observable long before 1890 but it has become increasingly widespread and serious since that time.

The lack of anything that really fills the gaps mentioned is a serious challenge to us all. Information should be given to customers, workers, stockholders, and the public. This should be in the form of full and explicit annual statements, house organs (widely disseminated), pamphlets sent out generously, and, finally, the grand finale for us, business histories setting forth the development of the business, its successes and failures, problems and plans. For ignorance and misunderstanding would be substituted information and knowledge.

A business factor that is paramount is the lack of a general policy that approaches the subject in a fundamental and realistic way. What are the directors of our big corporations going to aim at? Profits, yes; reserves, yes; stability, yes. But these are accepted essentials like bath and radio in a hotel room. Beyond such policies, however, it is necessary to have some social philosophy into which business policy can be fitted. There would be much to be said for a return to the gold standard, coöperative competition, and business cycles which shake out the dead wood of business. But for various reasons these are not in the cards. What is to be put into their place? Although most business operations must be managed on a short-time basis, we are now confronted with the need for more emphasis on long-time policy. We wonder how many directors of large companies and owners of small concerns are qualified to face the new problems that lead to success or failure in public relations.

#### 14. SUCCESS, FAILURE, AND DIFFICULTIES IN PUBLIC RELATIONS.

We have seen that in the history of the public relations of business men there have been three periods and that the latest period has experienced several phases. We seem just now to be in a transition from "the public be pleased" to "the public be fully served and fully informed." In this latest development, public



relations counsellors and public relations departments have made contributions, particularly when they have seen that mere publicity is not enough but that changes in policy are fundamental.

We have seen that depressions and other business situations cause the public to be critical and suspicious of business and even hostile to it, partly because there is a lack of public enlightenment as to the rôle of business in society. We have noted that politicians and social reformers, who are always with us, are ever ready to capitalize on the business man's troubles. We have also seen that, while some valuable reforms have come from such a source, serious threats to private business capitalism have been made. That's where we are today. Though for the moment we may look to a brighter day for business, the long-time course of events is not rosy. The least that can happen is that business will suffer from a good deal of political control. This is partly due to bad public relations, partly to the needs of big business itself, and partly to the new emphasis on consumption and wordly enjoyment.

Although many developments cannot be determined, forefended, or controlled by business men, at least public relations can be improved; and the worst consequences of past bad public relations can be avoided. Public relations have become a new art which will vary in effectiveness according to men and companies and industries.

Let us consider the *industries* that have had the extremes of the best and the worst public relations in America. Among the worst are stock speculation, investment banking, the anthracite industry, railroads, public utilities, liquor, petroleum, steel, and textiles. Among the best are department stores, corner stores, automobile manufacturers, and the makers of art goods and cosmetics.

An analysis of causes is not easy. Concerns which have had a monopoly have generally provided poor services and are not popular. Some which have developed large units, in order to achieve economies, have suffered from the ill will of small business men who have lost in the struggle. And industries which have opposed trade and labor unions or have paid low wages have had bad public relations.

Industries which have set out to provide services for the public without charge or which have given the customer the benefit of the doubt in the case of disputes have fared well. Industries which have provided commodities that people are eager for or identify with themselves are likely to have acceptable public relations. ("Yes, I bought it at Tiffany's," or "It's a piece of genuine Wedgwood.") And then, of course, those who pay high wages have a good chance of avoiding bad public relations.

Just as we raise the question as to which *industries* have the best public relations and which the worst, so we may consider which *concerns* have had the best and which the worst. Probably the Wanamaker Store in Philadelphia, the Ford Motor Company in Detroit (at least in early days), and the Dennison Manufacturing

Company in Framingham have stood high as recipients of large amounts of good will in our business history. Recently, in an extensive poll, published in *Tide* (15 June, 1945), the General Motors and the American Telephone and Telegraph Company stood at the top. At the other end of the scale, we may place the Standard Oil Company (N.J.), the United States Steel Corporation, the New York Stock Exchange, and J. P. Morgan and Company, which have had about the worst public relations. Now, we cannot help noting that Wanamaker and Ford have been our foremost institutional advertisers and that the Standard Oil Company (N.J.) and the United States Steel Corporation have been among the most backward of institutional advertisers, at least until recent years. No one would doubt the statement that J. P. Morgan and Company has been the most secretive as well as the most honorable of our business units. The secrecy is due to its inheritance from early years and from England and to the false idea that its business, being largely confidential, must be secret. No firm has paid a heavier price for its bad public relations than the otherwise premier bankers of 23 Wall Street. To be sure, secrecy has not been the only explanation. The elder Morgan, who set out to help industrial capitalists survive so that his clients, the investing capitalist, might prosper, seemed to be grasping at power which only a government should exercise. Accordingly, it was easy for the Democratic Party to make the firm a political football. It was to suffer unfairly because its public relations were bad, very bad. To be sure, the basis of much of the trouble was the economic power which the elder Morgan came to wield—with the implied danger to the public.

There is no question as to whether the stalwart or the compromiser has the better public relations, though there may be a question as to which is the wiser and which serves the public the better. Certain business men in America are known as stand-patters. They will not flirt with labor nor go into fields in which they think there is no profit for themselves and no long-run advantage to society. It is thought that a large proportion of the members of the National Association of Manufacturers belongs to this group. Certainly that Association is very unpopular nationally: in other words, it has bad public relations. On the other hand, there are individuals and groups labeled "liberal," "progressive," and "pink," which have good public relations, partly because they are thought to be pro-labor or radical in their financial methods. They are open to experiment and often seem to fit into the category of "liberal non-thinkers." Appeasement, compromise, and a short-sighted point of view sometimes characterize such persons and groups. But, inevitably, and this is our chief present interest, these persons have good public relations. This fact means that, if they sponsor a public measure, it has a chance of success. Or, if the national government wants to enlist help, it goes to them. Or, if those in rival camps want a co-adjutor, they go to this group.

The great rank and file of business men, however, are not in either of the groups that have striking public relations. They are not comparable to Baruch, the Du Ponts, the Filenes, Henry Kaiser, the Pews, and Myron C. Taylor. Most business men have no public standing at all or, at most, only local; but, of course, because of their numbers and strategic position on the firing line, this inconspicuous group is infinitely the most important. The group is definitely conservative and selfish: the only question is whether it is intelligently selfish. To the socialists and communists the petty bourgeoisie has traditionally been the most impervious to radical indoctrination. In America, however, at the present time this class of small business men is second in public favor only to the veterans of wars. Its public relations are so good that different classes and groups vie with one another in planning to "save" it or to improve its lot, while historically, we know, its function is to cushion change by rising and falling according to circumstances. And so, the public that frowns on investment bankers fawns on petty capitalists. The bankers had some good policies but could command few votes; the petty capitalists have few good policies but muster the votes. When our electorate thinks, their thoughts (combined with emotion) are along political lines. And yet there is economic wisdom too in cherishing the petty capitalist group, which originally created both towns and business, but which has had a break (social justice) only occasionally through the centuries.

One of the most intriguing problems is whether it is better for the business man, on the one hand, to follow public opinion and gain good will, even though from the long-time point of view this course may be unfortunate, or, on the other hand, to oppose public opinion with ensuing bad public relations when it is clear that the public is wrong. In truth, the business executive may be far-sighted and the public near-sighted. Frederic C. Dumaine, Sr., was far-sighted when he closed down the Amoskeag Manufacturing Company. Hill put together his big system of three railroads against public clamor, and Morgan sought to consolidate New England's railroads in the face of similar opposition. The future may substantiate the plans of both Hill and Morgan.

We should not blame the public for unclear thinking when our leaders, particularly some economists and some lawyers, engage in uncertain logical exercise in public places. Recently, in a radio address, an attorney-general of the United States explained the rise of economic competition in the nineteenth century and showed how cutthroat and dangerous it had become, in fact, how it had led to a reaction resulting in monopoly. Thereupon, by means of a logical somersault, he said that we must destroy monopoly and restore competition (which he had already admitted was injurious). He was preparing the way for a trust-busting campaign for his legal department. He would, in fact, try to unscramble some of the big business consolidations that were suspected of being unfriendly to the Democratic Party, of which he was a

champion. In dealing with the public and the public relations of business, politicians, who are frequently intellectually dishonest by training, if not by preference, can perpetrate almost any logical crime, for the public, bewildered by words and uncertain about the facts, can easily be imposed upon.

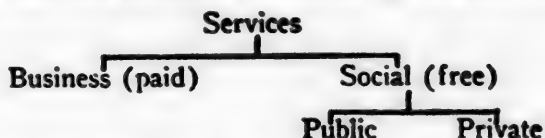
In the process of creating public relations our governments have played vital rôles. For the sake of political advantage the leaders of both parties have at one time or another undertaken to investigate unfairly, slander, or pillory business men and companies. *Ex parte* evidence has been collected and no chance given for explanation or rebuttal. True, there were grievances, reforms were necessary; but Congressional committees and political campaigns have gone far beyond the needs of reformation. The charges, insinuations, and innuendos of political leaders have been embalmed for all time in our libraries. Indeed, they are the chief sources for a study of recent business history in America.

Much of our recorded business history is found in books that have been written to blacken reputations rather than to set forth facts. Indeed a whole literature was created for the purpose of emphasizing the evil deeds of business men. The outstanding example is Ida M. Tarbell's *History of the Standard Oil Company* (1904). Perhaps no single volume has done more to create bad public relations than this work. There is no denying the fact that John D. Rockefeller, Sr., by his silence and by his strenuous competition (the order of the day) left himself open to attack. There is also no doubt that Miss Tarbell was expressing a family point of view and grievance, of which the public was unaware. So popular has this book become that one eastern college library wears out two copies a year. When the son of a Standard Oil Company (N.J.) official handed in an essay on Standard Oil at another eastern college, he consulted his father who was well informed about the history of the Company. The father went to great trouble to collect facts for his son's use. When the resulting essay was returned to the student, he found the following annotation: "Naïve, see Ida Tarbell." So bad was the reputation of this concern that no evidence in its favor could be considered genuine.

In the realm of public relations we encounter the age-old problem of words and their meaning. Certain words are booby traps for the public. Prominent among these are watered stock, monopoly, cartel, trust, holding company, big business, coöperatives, and independents. The first six of these engender bad public reaction, the last two just the contrary. If you say that such and such a company has a monopoly, you condemn the company at once, even though it may have no more than 50 or 60 per cent of the business. On the other hand, if you claim that your company is a coöperative or an independent, you attract patronage at once. Discrimination or fine distinctions do not come easy to the public. That there are good trusts and good holding companies is hard for the public to swallow. That some cartels are necessary in foreign

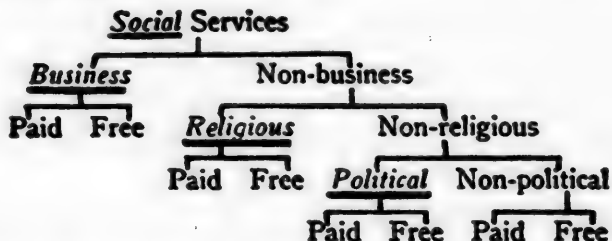
trade is rarely considered. Behind most of the animosities lies the fear of high prices and unfair treatment on the part of the customer. Fear, then, becomes the basis of a public relations situation. And, of course, fear is an irrational part of our nature. Emotions rule many of the public relations of business and accordingly require the analysis of social psychologists and treatment at the hands of social psychiatrists.

Perhaps I am overoptimistic about the services of the social scientists. Certainly they have done harm in the analysis they have made of "social services." By a false dichotomy they have divided services to the public into two groups—social and business. The analysis implicitly accepted is indicated by the following diagram.



Social services have been stated to be the "organized efforts to improve the conditions of disadvantaged classes." In effect, such treatment means that *business is non-social*. This is a subtle psychological matter of the greatest import for the public relations of business men. Students are taught at a time when they are receptive or gullible; and, of course, most of them never sit down to question what they have been taught. The idea gets into the realm of accepted views, then public opinion, and finally legislation.

A more acceptable analysis of social services would be something like the following, assuming that social services are man's aids to man in carrying on the work that makes life possible and richly worth while.



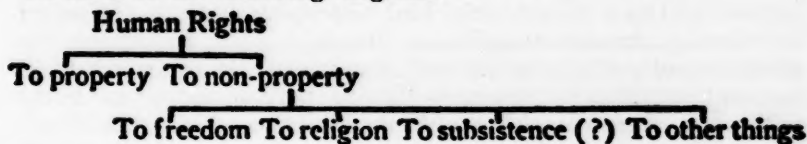
Of course, there is much in this analysis that could be discussed at length, but there is no space for prolonged consideration here. Perhaps it should be noted, however, that what is called "free" is really not free but paid for indirectly by somebody. In the political sphere the best examples are perhaps police protection and roads; but, in truth, these are very expensive and are, of course, paid for in the form of taxes of some kind. And so with services given "free" by business men: there is a cost that must be met by some persons, often not the ones receiving the "free" service. In the long run, however, it may be possible to make these services really free: in effect, they may be paid for by no one. If a com-



pany increases its customers so that volume of output is increased, the cost of the free services (institutional advertising) may be met not by higher prices but by greater volume. Indeed, the greater volume may permit even a lowering of the price. Here we find entwined the subject of public relations and sales; and this relationship is a close reflection of reality, though, of course, good public relations may look more to survival of private enterprise than to greater sales.

No analysis of services that turns on the question whether they are paid for or are free is worth much, because both business and non-business provide plenty of services that are either paid for or are free. Good public relations, including good customer relations, have made many minor objects "free," though in the last analysis probably only such things as bad air, common colds, and death are quite free.

Another example of the same kind of false dichotomy that has been common in attacks upon big business is found in the juxtaposition of *human* and *property* rights. This logical trick was much used by President F. D. Roosevelt. When anyone mentions the perennial case of human *vs.* property rights, there is a rush on the part of the public to take the part of human rights. But, in truth, there are no rights except human rights. The situation is set forth in the following diagram.



What is perhaps intended, certainly what is achieved, is that the rich are denied the right to property and the successful business man the right to the fruit of his management.

Now, in passing, let us note briefly a possible offshoot of the study of public relations. Such a study when pursued as an intellectual exercise, instead of just a new staff organization in business, may be expected to make social scientists conscious of the fact that business is part of society and that business history is enmeshed in what is called social process, social change, and social causation. So long as business has no recognized public relations, it is somewhat easier to leave it out of a study of the social sciences, or just to regard it as already dealt with, and covered in, economics, which, of course, is not the case. The tie-up between business and non-business suggests that business is the cement foundation for the rest of the social structure; or it is the warp for the non-business woof of the social fabric. Some day the study of public relations may fire the imagination of sociologists to the extent that they will actually include it in their study of the social organism. This will then itself become a new factor in public relations.

Of all the difficult situations that American business ever got itself into the worst seems to be the one just now (1940-45)

adumbrated. This is the obligation on the part of business men to give employment to fifty or sixty million workers in the United States. Politicians, particularly Roosevelt and Wallace, have driven business men into a corner. If these do not provide "full" employment (perhaps in itself desirable), the government will do so—at their expense. Some business men, dreading government in business almost as much as socialization, have countered by accepting the challenge. And now we are to see what will happen. To many it appears that it will be difficult enough to employ the deserving returning veterans. On the other hand, who wants the loafers of the eastern shipyards? Who would want the continuous drunks that have congregated from villages and towns in our industrial centers? Who will force the wives to work, if they don't want to do so? Who will induce those free lances of the out-of-the-way places of the country to accept regular work so as to make up the cabalistic number of sixty millions? And, yet, at some future election, if employment falls down, there will be statistical evidence that business is not performing its duty or keeping its promise.

Historically, business has gradually developed into the fairy godmother of the common man. It has given him a job so that he can have two shirts instead of one. But now that mother is to be forced to suckle any number of foster children. Of course, this may be the beginning of industrial feudalism, in which every worker will have an industrial lord responsible for him. Whether we develop through socialism, or through social democracy, the ultimate end seems to be industrial feudalism. If agrarian feudalism took centuries to mature in Europe, perhaps those now living will not see much development in the direction of industrial feudalism. Our interest here is not the ultimate outcome, however, but the immediate fact that business men have been jockeyed into a position where bad public relations are a reasonable expectation.

We have had in our western civilization two wars that have lasted (intermittently) a hundred years each. We seem to have entered the third hundred years' war. If so, we need to analyze carefully the impact of war on modern business. The new situation is that wars are now all-out efforts. All people, all companies, and all institutions must participate, if possible. Patents and raw materials and workers are shared or pooled. Profits are turned back to the government. In effect, business men, like other citizens, exist for the government. Whereas the non-business man may get back to the normal after the war, the business man may not. Certain alluring situations have arisen: onto the business man can be placed certain public burdens; control can be taken away from him without interfering with his management; and the fruit of his efforts can revert to the government. Society becomes used to such situations in war time; and, in a century of conflict, business may become completely hamstrung. It will be the irony of fate, if the business man loses his independence in wars fought to stave off a world-wide socialism championed by the

Russians. In other words, if he escapes formal socialization, he may still be driven into industrial feudalism on the under side and national capitalism on the upper side. Down beneath the surface, big business is gradually getting into unfortunate relations with the government: public relations are deteriorating, when considered from the long-run point of view. Modern war seems to be trying out socialism or what is about the same, only of more gradual growth—national capitalism—erected on a base of industrial feudalism. But this is not the growth of a decade, rather of a century.

In the midst of conflicts between business men and the public and in the full knowledge that there have been periods of remarkable harmony, we are led to raise the question as to whether there is any absolute truth, any underlying principle in public relations. I know of no statement more inclusive than that the business man should be intelligently selfish. He must hold to the profit system; and in the pursuit of profits he should serve the public fully. He should choose able lieutenants and build up an effective organization. Beyond this, he should act always so as to make the business of which he is a part safe for business men, including executives and investing capitalists, and clean in its relations with all groups. He has learned to accept difficult tax and labor situations; he may have to submit to a great deal of control of credit and prices. As the public learns how to express itself and how to analyze its need, he may have to give up more of his policy-formulation and controls. Above all, the business man, compelled to live dangerously in a critical or hostile world, must be willing to learn from the outside and must grow with society; he cannot operate in the medium of past public relations.

What has been more or less assumed must now be made explicit. The business historian reaches his position of greatest usefulness in the culmination of a demand for good public relations. Without a knowledge of the development of business through the centuries there can be no satisfactory public relations. The stature and position of the public are changing. Private business has been gradually reaching a danger point. It may not be too late, however, to save it from stifling control or nationalization (socialization). The methods by which business can save itself are (1) fuller service to the public, (2) greater candor in giving out information, and (3) a presentation of the over-all position of business in social and cultural history. Amid all the grimy details of business there shines out a beacon light of service to men, which is exceeded only by the service of parents to their children; and, I believe, that service is quite unequaled in accomplishment by the work of churchmen, politicians, and teachers. We accept business just as we accept the return of light after the night. If we could only lose business for a season (and survive), we would acquire a greater understanding and the public would become more receptive to suggestions for improved public relations.

